

Message Text

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E.O. 11652: GDS

TAGS: OVIP (SIMON, WILLIAM)

SUBJECT: SECRETARY SIMON'S MIDDLE EAST TRIP

1. FOLLOWING IS DRAFT STRATEGY PAPER PREPARED FOR
SECRETARY SIMON'S VISIT TO EGYPT ON WHICH WE WOULD
APPRECIATE YOUR COMMENTS OR RECOMMENDATIONS:

2. BEGIN TEXT: COMING IN THE AFTERMATH OF THE PRESIDENT'S
HIGHLY SUCCESSFUL VISIT TO EGYPT, SECRETARY SIMON'S
TALKS IN CAIRO WILL PROVIDE AN IMPORTANT OPPORTUNITY
TO DISCUSS SUBSTANTIVE ECONOMIC AND FINANCIAL ISSUES
AND TO ESTABLISH THE WORKING GROUP STRUCTURE OF THE
JOINT COOPERATION COMMISSION. THE BROAD OBJECTIVE OF
THIS TRIP IS TO MAINTAIN THE MOMENTUM IN US-EGYPTIAN
RELATIONS BY ADDING AN ECONOMIC DIMENSION THAT WILL
COMPLEMENT THE POLITICAL STRATEGY THAT WE HAVE PURSUED
SINCE LAST FALL. IN ECONOMIC TERMS, THIS REQUIRES THAT
WE SERIOUSLY ADDRESS THE KEY ECONOMIC ISSUES FACING
EGYPT, INCLUDING FUNDAMENTAL RESTRUCTURING OF THE

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ECONOMY, DEVELOPMENT PLANNING, INVESTMENT, COMMODITY
ASSISTANCE, AND TRADE. WE WILL WANT TO EXPLORE WITH
THE EGYPTIANS STEPS THAT THEY MIGHT TAKE TO ATTRACT

WESTERN INVESTMENT AND TO IMPROVE THEIR CREDIT-WORTHINESS; AT THE SAME TIME WE WILL WANT TO BE

FORTHCOMING IN OFFERING TO BE OF ASSISTANCE, WITHIN LIMITS IMPOSED BY LEGAL AND CONGRESSIONAL CONSTRAINTS, AS PRESIDENT SADAT ATTEMPTS TO REINVIGORATE THE EGYPTIAN ECONOMY. TO THE DEGREE POSSIBLE, WE SHOULD ENCOURAGE THE EGYPTIANS TO TAKE THE INITIATIVE IN SUGGESTING SPECIFIC COURSES OF ACTION. THERE IS NO QUESTION THAT EGYPTIAN EXPECTATIONS OF LARGE AMOUNTS OF US AID ARE RUNNING HIGH, AND THIS POSES SOME RISK TO OUR POLITICAL RELATIONSHIP. THE ART IN TALKS WITH THE EGYPTIANS NOW IS TO INJECT AN ELEMENT OF REALISM INTO THEIR THINKING WITHOUT BEING NEGATIVE OR CONDESCENDING, AND WITHOUT APPEARING TO TELL THEM HOW TO SET THEIR ECONOMIC HOUSE IN ORDER.

3. THE POLITICAL CONTEXT: FOLLOWING THE OCTOBER 1973 WAR, WE RAPIDLY SUCCEEDED IN ESTABLISHING A CLOSE POLITICAL RELATIONSHIP WITH PRESIDENT SADAT. THE KEY TO THIS DEVELOPMENT WAS SADAT'S PERCEPTION THAT THE UNITED STATES IS PREPARED TO USE ITS INFLUENCE IN THE MIDDLE EAST ON BEHALF OF AN EQUITABLE PEACE AGREEMENT. IN RETURN, SADAT ACCEPTED OUR STEP-BY-STEP APPROACH TO NEGOTIATIONS AND HAS SINCE ACTED AS A FORCE FOR MODERATION IN THE ARAB WORLD. HE PLAYED AN IMPORTANT ROLE IN ENDING THE ARAB OIL BOYCOTT OF THE UNITED STATES AND IN CONVINCING THE SYRIANS TO FOLLOW HIS LEAD BY ENTERING INTO A DISENGAGEMENT AGREEMENT WITH ISRAEL. TO MAINTAIN THE CLOSENESS OF OUR PRESENT RELATIONSHIP, WE RECOGNIZE THAT CONTINUED PROGRESS IN PEACE NEGOTIATIONS WILL HAVE TO BE MADE.

4. IN ADDITION TO SHARING TO A SUBSTANTIAL DEGREE OUR VIEW OF THE PROCESS TO BE FOLLOWED TO ACHIEVE A PEACE SETTLEMENT, SADAT IS ALSO KEENLY AWARE OF THE DANGERS OF EXCESSIVE SOVIET INFLUENCE IN THE MIDDLE EAST. AS EARLY AS JULY 1972 HE TOOK THE UNILATERAL

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STEP OF EXPELLING SOVIET TROOPS FROM EGYPT, AND SINCE LAST OCTOBER HE HAS TAKEN FURTHER STEPS AWAY FROM MOSCOW. HE SEES THE RESTRUCTURING OF THE EGYPTIAN ECONOMY ALONG LESS RIGIDLY SOCIALIST LINES AS AN IMPORTANT PART OF HIS POLICY OF REDUCING SOVIET INFLUENCE BY ENDING THE LINKS OF DEPENDENCY THAT HAVE BOUND EGYPT TO THE SOVIET UNION. THUS, ECONOMIC POLICY, IN SADAT'S VIEW, IS INTEGRALLY TIED TO LONG-TERM POLITICAL OBJECTIVES THAT ARE CONSISTENT WITH US INTERESTS IN THE AREA. FROM OUR PERSPECTIVE, A CLOSE US-EGYPTIAN BILATERAL RELATIONSHIP FOUNDED ON ECONOMIC

COOPERATION CAN SERVE AS SOMETHING OF A SAFETY

NET DURING THOSE INEVITABLE PERIODS IN THE PEACE
NEGOTIATIONS WHEN PROGRESS IS SLOW.

5. EGYPT'S ECONOMIC PROBLEMS: THE EGYPTIAN ECONOMY
SUFFERS FROM INADEQUATE RESOURCES FOR ITS LARGE AND
RAPIDLY GROWING POPULATION. AGRICULTURE HAS BEEN THE
MAINSTAY OF THE ECONOMY, BUT EXPANSION OF AGRICULTURAL
LAND AND IMPROVED YIELDS ARE DIFFICULT TO ACHIEVE.
OIL HAS BEEN DISCOVERED IN MODEST QUANTITIES, AND,
IF OUTPUT CAN BE INCREASED, THIS COULD PROVIDE AN
IMPORTANT SOURCE OF REVENUE. FOR THE MOMENT, HOWEVER,
EGYPT PRODUCES ONLY ENOUGH OIL TO COVER ITS OWN NEEDS.
EGYPT HAS AN IMPORTANT INDUSTRIAL SECTOR, BUT ITS
PRODUCTS ARE GENERALLY NOT COMPETITIVE IN WORLD MARKETS.
A LARGE AND OFTEN INEFFECTIVE BUREAUCRACY DOMINATES
MAJOR SECTORS OF THE ECONOMY, REDUCING INCENTIVES FOR
EGYPT'S SMALL ENTREPRENEURIAL CLASS AND CAUSING MAJOR
INEFFICIENCIES.

6. MILITARY SPENDING HAS REMAINED AT A VERY HIGH LEVEL
FOR YEARS, BRINGING IN ITS WAKE A HEAVY INDEBTEDNESS
TOWARD THE SOVIET UNION WHICH HAS BADLY DISTORTED
EGYPT'S PATTERN OF TRADE. AS A RESULT, EGYPT IS IN
CONSTANT NEED OF LARGE INFUSIONS OF FOREIGN EXCHANGE TO
FINANCE THE IMPORTS NECESSARY FOR ITS ECONOMIC
DEVELOPMENT AND THE FOOD NECESSARY TO PROVIDE FOR ITS
POPULATION. THE DEPENDENCY ON FOREIGNERS FOR CAPITAL
HAS BEEN A PERSISTENT THEME IN EGYPTIAN POLITICAL LIFE

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AND HAS FREQUENTLY HAD A DETERMINING, AND GENERALLY
NEGATIVE IMPACT ON EGYPT'S FOREIGN POLICY. IT IS
CLEARLY IN THE US INTEREST THAT EGYPT SUCCEED IN
BECOMING MORE SELF-RELIANT, IN REORIENTING ITS TRADE,
ATTRACTING NEW INVESTMENT, AND DEVELOPING NEW EXPORTS.
THE EASY SOLUTION TO EGYPT'S FINANCIAL SITUATION WOULD
APPEAR TO BE LARGE INFUSIONS OF ARAB OIL MONEY, BUT
THESE SOURCES ARE UNPREDICTABLE AND ARE LIKELY TO ENTAIL
SOME POLITICAL STRINGS THAT EGYPT WILL BE RELUCTANT
TO ACCEPT. WHILE UNDOUBTEDLY HELPFUL, THESE FUNDS
CANNOT FULLY SUBSTITUTE FOR EGYPT'S OWN ABILITY TO
FINANCE ITS DEVELOPMENT TO THE MAXIMUM EXTENT POSSIBLE.

7. THE MAGNITUDE OF EGYPT'S ECONOMIC PROBLEMS WILL
VARY FROM YEAR TO YEAR DEPENDING ON CIRCUMSTANCES BUT
SEVERAL BASELINE FIGURES ARE WORTH KEEPING IN M D. IN
THE YEARS 1971-73, EGYPT RAN A CURRENT ACCOUNT DEFICIT
OF ABOUT DOLLARS 300 - 400 MILLION, EVEN AFTER
RECEIPT OF DOLLARS 250 MILLION IN SUBSIDIES FROM LIBYA,

SAUDI ARABIA AND KUWAIT. THE OCTOBER WAR LED TO

LARGE FINANCIAL CONTRIBUTIONS FROM OIL-RICH ARAB COUNTRIES, BUT MUCH OF THIS PROBABLY WENT FOR MILITARY PURCHASES. EGYPT'S FOREIGN DEBT IS CURRENTLY WELL OVER DOLLARS FOUR BILLION, ABOUT ONE-HALF OF WHICH IS OWED TO THE SOVIETS FOR MILITARY EQUIPMENT. DEBT SERVICING TO WESTERN COUNTRIES RUNS ABOUT DOLLARS THREE HUNDRED MILLION ANNUALLY AT PRESENT. OF THESE TOTALS, EGYPT OWES THE UNITED STATES ABOUT DOLLARS ONE HUNDRED NINETY-FIVE MILLION, WITH A DEBT SERVICE OF APPROXIMATELY DOLLARS FIFTEEN MILLION YEARLY. WITH ONLY 15 PER CENT OF EGYPT'S EXPORTS OF JUST OVER DOLLARS ONE BILLION EARNING CONVERTIBLE CURRENCIES, EGYPT HAS TO LOOK TO OTHER SOURCES OF CAPITAL TO COVER IMPORTS AND DEBT SERVICING.

8. PROSPECTS FOR US-EGYPTIAN ECONOMIC RELATIONS: DURING THE PRESIDENT'S TRIP TO EGYPT, IT WAS ANNOUNCED THAT THE UNITED STATES WOULD HELP EGYPT TO STRENGTHEN ITS FINANCIAL STRUCTURE. THE EGYPTIANS SEE THIS AS A PROMISE, AMONG OTHER THINGS, TO CONSIDER DEBT RE-

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SCHEDULING, BUT THE ISSUE SHOULD BE PLACED IN THE BROADER CONTEXT OF HELPING EGYPT TO GET ITS ECONOMY BACK ON A SOUND BASIS SO THAT CREDITORS WILL FEEL JUSTIFIED IN RESCHEDULING DEBTS AND IN PROVIDING NEW CAPITAL IN ORDER TO BRING ABOUT FUNDAMENTAL CHANGES IN THE EGYPTIAN ECONOMIC SYSTEM. EGYPT'S DEBT TO THE UNITED STATES IS A COMPARATIVELY SMALL AMOUNT IN ANY CASE, SO THAT THE MAJOR ARGUMENT FOR A US OFFER TO RESCHEDULE REPAYMENTS IN A MULTILATERAL CONTEXT IS THAT EGYPT MAY BE ABLE TO USE THIS AS LEVERAGE WITH HER OTHER CREDITORS, THE WESTERN EUROPEANS AND THE SOVIETS, TO ENGAGE IN A MAJOR RESCHEDULING EXERCISE THAT COULD BE OF SUBSTANTIAL HELP TO EGYPT.

9. AS PART OF THE JOINT COOPERATION COMMISSION, THE UNITED STATES AND EGYPT HAVE AGREED TO ESTABLISH SIX WORKING GROUPS: SUEZ CANAL RECONSTRUCTION AND DEVELOPMENT; US PRIVATE INVESTMENT AND TRADE PROMOTION; AGRICULTURE; TECHNOLOGY, RESEARCH AND DEVELOPMENT; MEDICAL COOPERATION; CULTURAL EXCHANGE.

10. IT IS NOT YET CLEAR WHETHER THESE GROUPS WILL SERVE PRIMARILY TO IDENTIFY PROJECTS FOR FUNDING OR TO EXCHANGE INFORMATION ON EGYPTIAN NEEDS AND US CAPABILITIES. IN ADDITION, WE AGREED TO ESTABLISH A JOINT ECONOMIC COUNCIL THAT WOULD INCLUDE REPRESENTATIVES FROM THE PRIVATE ECONOMIC SECTOR "TO COORDINATE AND

PROMOTE MUTUALLY BENEFICIAL COOPERATIVE ECONOMIC ARRANGEMENTS." WE ALSO PROMISED TO MAKE THE "MAXIMUM FEASIBLE CONTRIBUTION" TO EGYPT'S ECONOMIC DEVELOPMENT, TO GIVE "SPECIAL PRIORITY" TO EGYPT'S NEEDS FOR AGRICULTURAL COMMODITIES, AND TO CONSIDER HOW WE MIGHT ASSIST IN THE RECONSTRUCTION OF CAIRO'S OPERA HOUSE. OUR EMBASSY IN CAIRO HAS BEEN GIVING CAREFUL THOUGHT TO HOW WE MIGHT PROCEED IN THESE VARIOUS AREAS. THEIR RECOMMENDATIONS SHOULD BE AVAILABLE PRIOR TO SECRETARY SIMON'S VISIT.

11. SECRETARY SIMON'S OBJECTIVES: TWO KEY ISSUES STAND OUT AS CENTRAL TO THE US-EGYPTIAN ECONOMIC

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DIALOGUE AT PRESENT:

-- WHAT COULD THE EGYPTIANS DO TO MAKE THEMSELVES MORE CREDIT-WORTHY AND TO ATTRACT FOREIGN INVESTMENT? WHAT ROLE CAN THE US PLAY IN ENCOURAGING THIS PROCESS?

-- WHAT ARE WE PREPARED TO PROPOSE TO ASSIST EGYPT IN RESTRUCTURING ITS ECONOMY WITHIN A SOUND DEVELOPMENTAL FRAMEWORK?

12. IN DISCUSSING WITH THE EGYPTIANS MEASURES THAT THEY MIGHT TAKE TO STRENGTHEN THEIR OWN ECONOMY, TO ATTRACT INVESTMENT, AND TO FACILITATE US-EGYPTIAN COOPERATION, WE SHOULD KEEP IN MIND THE FOLLOWING POINTS:

-- THE NEED FOR AN INVESTMENT GUARANTEE AGREEMENT. BY THE TERMS OF THE JOINT COMMUNIQUE, WE ARE COMMITTED TO NEGOTIATING A NEW AGREEMENT IMMEDIATELY. PRIOR TO 1967, WE DID HAVE AN AGREEMENT WITH EGYPT AND OPIC FEELS THAT IT WOULD BE BEST SIMPLY TO REAFFIRM ITS TERMS THROUGH AN EXCHANGE OF NOTES. THIS WILL SOON BE PROPOSED TO THE EGYPTIANS. THEY MAY PREFER, HOWEVER, TO NEGOTIATE A NEW AGREEMENT, BUT WE WOULD WANT TO DISCOURAGE THIS IF ITS TERMS ARE LESS FAVORABLE THAN THE PREVIOUS ONE.

-- SETTLEMENT OF BILATERAL PRIVATE AND PUBLIC US CLAIMS. THESE AMOUNT TO DOLLARS 7.5 MILLION, OF WHICH APPROXIMATELY ONE-HALF CONSISTS OF PRIVATE CLAIMS. SOME PROGRESS MUST BE SHOWN IN SETTLING THESE CLAIMS BEFORE OPIC WILL AGREE TO BECOME INVOLVED IN EGYPT. WE ARE PRESENTLY IN THE PROCESS OF DETERMINING WHETHER

SUFFICIENT PROGRESS HAS BEEN MADE SO THAT WE MAY

PROCEED WITH AN INVESTMENT GUARANTEE AGREEMENT.

-- REVISION OF EGYPTIAN LAWS IN ORDER TO ENCOURAGE PRIVATE INVESTMENT. DESPITE THE RECENT REVISION OF THE INVESTMENT CODE, EGYPTIAN LAWS HAVE FREQUENTLY DISCOURAGED US INVESTORS. AT ISSUE IS THE ABILITY

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OF FOREIGN FIRMS TO REPATRIATE PROFITS, WHICH REQUIRES ASSURANCES ON THE CONVERTIBILITY OF LOCAL CURRENCY. THESE ARE SENSITIVE MATTERS AND WE WILL NOT WANT TO PRESS THE EGYPTIANS TOO HARD, BUT WE SHOULD HAVE EXAMPLES AT HAND OF PROBLEMS ENCOUNTERED BY US BUSINESSES OPERATING IN EGYPT. THE REVISED INVESTMENT CODE REQUIRES FURTHER STUDY TO DETERMINE WHETHER IT IS LIKELY TO BE AN OBSTACLE IN OUR ECONOMIC RELATIONS. THE EMBASSY'S PRELIMINARY READING IS THAT THE NEW LAW DOES NOT GO FAR ENOUGH IN THE DIRECTION OF LIBERALIZATION.

-- FINANCIAL STABILIZATION. THE IMF HAS RECENTLY SENT A REPRESENTATIVE TO CAIRO FOR TALKS ON FINANCIAL STABILIZATION. WE SHOULD TALK WITH IMF TO DETERMINE WHAT MEASURES THEY MAY HAVE RECOMMENDED TO THE EGYPTIANS, ESPECIALLY WITH RESPECT TO THE DESIRABILITY OF DEVALUING THE POUND. JOHN GUNTHER IS THE APPROPRIATE POINT OF CONTACT. AS PART OF HIS MISSION "TO HELP STRENGTHEN THE FINANCIAL STRUCTURE OF EGYPT," SECRETARY SIMON WILL WANT TO BE IN A POSITION TO DISCUSS THE IMF RECOMMENDATIONS WITH EGYPTIAN OFFICIALS.

13. PROVIDED THAT THE EGYPTIANS ARE PREPARED TO TAKE STEPS NECESSARY TO STRENGTHEN THEIR ECONOMY, WE SHOULD CONSIDER ASKING PRESIDENT SADAT IF HE WOULD BE INTERESTED IN A COMPREHENSIVE MULTILATERAL DEBT RESCHEDULING/DEVELOPMENT PLANNING EXERCISE, PREFERABLY UNDER WORLD BANK AUSPICES. THE US ROLE IN THIS WOULD BE RELATIVELY MINOR, BUT WE COULD SERVE AS A CATALYST BY MAKING KNOWN OUR WILLINGNESS TO PARTICIPATE. IN ADDITION, IT WOULD BE HELPFUL TO BE IN A POSITION TO SAY THAT WE HAD DISCUSSED THIS WITH BANK PRESIDENT MC NAMARA AND HAD HIS GENERAL APPROVAL FOR THE IDEA. A RESCHEDULING EXERCISE COULD BE MODELLED ON THE INTER-GOVERNMENTAL GROUP FOR INDONESIA, WITH THE IBRD PLAYING THE LEADING ROLE IN SETTING UP THE MULTILATERAL FRAMEWORK. THERE ARE, OF COURSE, ARGUMENTS AGAINST DEBT RESCHEDULING WHICH SHOULD BE CAREFULLY WEIGHED. ANY US ROLE SHOULD BE PLACED IN A MULTILATERAL CONTEXT IN ORDER TO SERVE ITS FULL PURPOSE.

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14. IN PREPARING TO DISCUSS MEASURES THAT THE US MIGHT TAKE TO HELP WITH EGYPT'S ECONOMIC DEVELOPMENT, THE FOLLOWING STEPS SHOULD BE CONSIDERED:

-- CONSULT WITH WORLD BANK PRESIDENT MC NAMARA PRIOR TO TALKS IN CAIRO, PARTICULARLY ABOUT THE BANK'S ROLE IN ORGANIZING A DEBT RESCHEDULING EXERCISE. IT MAY ALSO BE DESIRABLE FOR THE IBRD TO ASSIGN A REPRESENTATIVE TO CAIRO ON A PERMANENT BASIS.

-- DISCUSS WITH SADAT HOW A WESTERN DEBT-RESCHEDULING EXERCISE WOULD RELATE TO EGYPT'S PLANS FOR REPAYMENT OF ITS DEBTS TO THE SOVIET UNION. HE SHOULD UNDERSTAND THE PROBLEM OF NEGATIVE CONGRESSIONAL REACTION IF WE AGREE TO DEBT RESCHEDULING WITHOUT PARALLEL STEPS TAKEN BY EGYPT TO RESCHEDULE ITS DEBT TO THE SOVIET UNION.

-- EXPLORE WITH THE EGYPTIANS WAYS IN WHICH ARAB OIL FUNDS CAN COMPLEMENT WESTERN FINANCIAL AND TECHNOLOGICAL CONTRIBUTIONS AS PART OF A COMPREHENSIVE APPROACH TO DEVELOPMENT. SINCE LAST OCTOBER, ARAB AND IRANIAN OFFERS OF CREDITS TO EGYPT HAVE EXCEEDED DOLLARS ONE BILLION, ALTHOUGH THE TERMS OF THESE OFFERS ARE NOT KNOWN.

-- TALK WITH THE EGYPTIANS AT A HIGH LEVEL ABOUT THEIR DEVELOPMENT PRIORITIES WITH THE OBJECTIVE OF RATIONALLY ALLOCATING THE FUNDS THAT CONGRESS MAKES AVAILABLE FOR EGYPT IN THE COMING FISCAL YEAR.

-- TALK WITH EXPORT-IMPORT BANK PRESIDENT CASEY PRIOR TO SECRETARY SIMON'S TRIP IN ORDER TO DETERMINE THE BANK'S POLICY TOWARD EXTENDING CREDITS TO EGYPT. MR. CASEY IS APPARENTLY WILLING TO HAVE THE BANK BECOME INVOLVED IN FINANCING THE CAIRO WESTERN POWER STATION. ANOTHER PROJECT THAT MAY REQUIRE EX-IM PARTICIPATION IS THE SALE OF A NUCLEAR REACTOR TO EGYPT. AS A GENERAL POINT, WE WILL WANT TO MAKE SURE THAT THE EGYPTIANS UNDERSTAND THE NEED FOR SOUNDLY CONCEIVED PROJECTS IN ORDER TO ATTRACT EX-IM FINANCING.

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-- CONCLUSION OF A FIRST-QUARTER PL-48 ;AGREEMENT WITH EGYPT. WE ARE CLOSE TO HAVING INTER-AGENCY APPROVAL FOR A DOLLARS 38.3 MILLION PL-480 PROGRAM IN THE FIRST QUARTER OF FY 1975. THIS WOULD CONSIST PRIMARILY OF 125,000 TONS OF WHEAT AND 75,000 TONS OF FEED GRAINS.

FOR PURPOSES OF FUTURE PLANNING, WE MAY WANT TO DISCUSS WITH THE EGYPTIANS HOW OUR CONTRIBUTIONS THROUGH PL-480 CAN BEST COMPLEMENT COMMODITY AGREEMENTS WITH OTHER COUNTRIES.

15. AS A MATTER OF PROCEDURE, WE WILL NOT WANT TO PLACE OURSELVES IN A POSITION OF TRYING TO TELL THE EGYPTIANS HOW TO REFORM THEIR ECONOMY. THE TONE OF THESE TALKS SHOULD BE THAT WE ARE PREPARED TO EXPLORE WITH THE EGYPTIANS WAYS IN WHICH WE CAN BE HELPFUL, INVITING THEIR IDEAS AND SUGGESTIONS ON HOW BEST TO PROCEED. FOR OUR OWN PURPOSES, OF COURSE, WE WILL WANT TO HAVE IN MIND WHAT WE ARE PREPARED TO DO AND WHAT STEPS THE EGYPTIANS CAN TAKE THAT WILL ENHANCE THE PROSPECTS FOR A PRODUCTIVE ECONOMIC RELATIONSHIP. IN ADDITION, WE WILL WANT TO BE SURE THAT THE EGYPTIANS UNDERSTAND THE LIMITATIONS ON WHAT WE AS A GOVERNMENT ARE ABLE TO DO WITH RESPECT TO AID, CREDITS, INVESTMENT AND TRADE. IN A SUBTLE MANNER, WE WILL WANT TO CONVEY THE POINT THAT WHAT WE CAN DO WILL IN PART DEPEND ON STEPS THEY TAKE IN REFORMING THEIR ECONOMIC SYSTEM AND PLANNING CAPABILITY SO THAT PRIVATE INVESTORS WILL HAVE CONFIDENCE, CONGRESS WILL BE ASSURED THAT US CAPITAL IS NOT SIMPLY GOING TO PAY OFF EGYPTIAN DEBTS TO THE SOVIET UNION, AND THAT THE EX-IM BANK WILL BE CONVINCED THAT PROJECTS ARE WELL-DESIGNED AND REPAYMENT OF LOANS IS GUARANTEED.

16. APART FROM THE BASIC SUBSTANTIVE ISSUES FOR DISCUSSION, WE SHOULD ALSO ATTEMPT TO ESTABLISH A SCHEDULE FOR MEETINGS OF SOME OF THE SIX WORKING GROUPS THAT FORM PART OF THE JOINT COOPERATION COMMISSION. WE PROBABLY DO NOT NOW WANT TO GO INTO GREAT DETAIL ON WHAT THESE GROUPS ARE EXPECTED TO

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ACCOMPLISH, AS OUR EMBASSY FEELS THAT IT WILL TAKE THE EGYPTIANS SOME TIME TO GET THEMSELVES WELL-ORGANIZED. FOREIGN MINISTER FAHMI HAS INDICATED A PREFERENCE FOR HAVING THESE GROUPS MEET AFTER HIS VISIT TO WASHINGTON IN AUGUST. END TEXT. SISCO

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